

CIGIE/GAO Financial Statement Audit Conference

FASAB Update

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1:40 – 2:30 PM
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Disclaimer

- Views expressed are those of the speaker.
- The Board expresses its views in official publications.

OVERVIEW

- 25 Years
- Federal Reporting Entity
- Review of Current Projects:
 - Reporting Model
 - Risk Assumed
 - Leases
 - Public-Private Partnerships
 - Department of Defense



Twenty-five Years

“...legislators generally considered management reform about as exciting as sorting cranberries...”

- Michael D. Serlin, Born-again financial management. Government Executive (May 1996).

Sustained Management Reform

Memorable Moments at the Standards Setting Board

- Being key to realizing the NPR goals
- Not being terminated by the NPR
- Getting pension and OPEB liabilities right
- Hearing budget experts recommend use of more accrual information
- Getting “GAAP”
- Being the first and only country presenting audited projections for SI and soon whole of government flows
- Always having willing volunteers!
- Seeing the talent!



Reporting Entity – Are you ready?

Federal Reporting Entity

– SFFAS 47 (effective FY2018) –

- Include in General Purpose Federal Financial Reports (GPFFR) all organizations:
 - budgeted for,
 - controlled with potential for risk or reward, or
 - owned
- Does not specifically address particular entities.
 - Provides for judgment about:
 - Inclusion
 - Classification
 - Disclosure

Federal Reporting Entity (CONT.)

Distinguish between consolidation entities and disclosure organizations

- Consolidation entities are:
 - supported by general taxes and
 - on-going decision making is more clearly linked to elected officials.
- Information for consolidation entities is to be consolidated in financial statements.

Federal Reporting Entity (CONT.)

- Disclosure organizations are:
 - somewhat independent from elected officials, and
 - may be financially self-sustaining.
- Information regarding such organizations is to be disclosed in notes with an emphasis on risk.

Federal Reporting Entity (CONT.)

- Also addresses:
 - What entities are subject to SFFAS 34 – the GAAP hierarchy for federal entities
 - What organizations to include in component reporting entity GPFFR
 - How to deal with:
 - FASB-basis information for consolidation entities
 - Different year ends for disclosure organizations
 - Related parties
 - Amendments to SFFAC 2, *Entity and Display*

Current Projects

Reporting Model – Research Results

Improvement Needed in the **Statement of Net Cost:**

- Now - cost by strategic goal
- Some prefer to focus on “cost” by organizations, programs, or projects
- Matching cost and output (and eventually outcome) is not so easy!
- Same terms used differently by different disciplines (cost per the budget versus cost per accrual principles versus cost per program evaluators)

Reporting Model – Research Results

Improvement Needed in **Budgetary Information:**

- Not understandable or useful to non-specialists
- Hard to relate to cost (and non-financial performance)
- But important to:
 - get right
 - track resourcesSo you can hold officials accountable.

Reporting Model – Forming Concepts

Draft concepts will or may:

- integrate some existing information (SFFAC 1 and SFFAS 4 Concepts)
- discuss interoperability among GAAP based and transparency information
- Identify key differences between the government as a whole and components
- discuss ways to relate and disaggregate information

RISK ASSUMED

- Current Standards are limited to insurance contracts and explicit guarantees (other than loan guarantees).
- Implementation is:
 - varied across government.
 - not sufficiently understandable.
- Ideally, the project will lead to relevant risk assumed information across government.

RISK ASSUMED (cont.)

- Three Phases -

- Phase I: Insurance and [Non-Loan] Guarantees
- Phase II: Entitlement Programs, including:
 - National Defense,
 - Security and Disaster response
 - Other potential effects on future outflows:
 - regulatory actions,
 - Government Sponsored Enterprises (GSEs), etc.
- Phase III:
 - Commitments
 - Obligations
 - Other risk areas

RISK ASSUMED (cont.)

- Insurance & Guarantee Phase -

- Define federal Insurance and [Non-Loan] Guarantee programs
- Improve terminology
- Address measurement uncertainty regarding estimated losses on open contracts
 - Potentially use expected value
 - Improve disclosures
- Disclose risk assumed
 - Narrative including risk factors
 - Coverage in force (maximum loss)

Leases

Are all leases financings?

Leases (cont.)

- FASAB is partnering with GASB to develop standards for governmental organizations.
- Tentative decision to establish a single model (with exceptions for short-term arrangements).
 - Leases create assets consisting of the “right to use” a resource.
 - Leases create liabilities consisting of the obligation to pay for the resource.
- The focus may be on the interest cost associated with leases.
- Intragovernmental exceptions

Public-Private Partnerships

Due to budget pressures, federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals

- Transparency of the full costs and risks of such partnerships is the overall objective
- Specific objectives include:
 - Defining terms (e.g., service concession arrangements, P3s)
 - Providing guidance for the recognition and measurement of:
 - assets and liabilities
 - revenues and expenses
 - risks
 - Consider implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

DoD Implementation Guidance

- SFFAS 3 – Are estimates for inventory and related property permitted?
 - Proposal emerging –
 - Permit many valuation approaches in establishing an opening balance
- SFFAS 6 – Treatment of Capital Improvements (separate estimates required or not)
- Internal Use Software
 - The AAPC is developing an implementation guide.

Questions?

Contact and Website Information

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- www.FASAB.gov
 - Listserv (sign up for emails)
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